

**KENT CITY  
COMMUNITY SCHOOLS  
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2008

**KENT CITY COMMUNITY SCHOOLS**  
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For the year ended June 30, 2008

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## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

October 6, 2008

The Board of Education  
Kent City Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent City Community Schools (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kent City Community Schools as of June 30, 2008, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2008 on our consideration of Kent City Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kent City Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## KENT CITY COMMUNITY SCHOOLS

### Management's Discussion and Analysis June 30, 2008

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As management of the Kent City Community Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

### Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
  - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

### District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets, and how they have changed. Net assets - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base and the condition of school buildings and other facilities.

## KENT CITY COMMUNITY SCHOOLS

### Management's Discussion and Analysis June 30, 2008



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

### Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole:

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current assets	\$ 4,918,166	\$ 4,830,764
Capital assets, net book value	<u>22,408,349</u>	<u>23,369,728</u>
<b>Total Assets</b>	<u><b>27,326,515</b></u>	<u><b>28,200,492</b></u>
<b>Liabilities</b>		
Current liabilities	3,640,923	3,362,193
Long-term liabilities	<u>24,114,635</u>	<u>24,647,345</u>
<b>Total Liabilities</b>	<u><b>27,755,558</b></u>	<u><b>28,009,538</b></u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(1,970,620)	(1507,380)
Restricted	936,703	900,664
Unrestricted	<u>604,874</u>	<u>797,669</u>
<b>Total Net Assets</b>	<u><b>\$ (429,043)</b></u>	<u><b>\$ 190,954</b></u>

## KENT CITY COMMUNITY SCHOOLS

### Management's Discussion and Analysis June 30, 2008



The Statement of Activities presents changes in net assets from operating results:

	<u>2008</u>	<u>2007</u>
<b>Program Revenues</b>		
Charges for services	\$ 331,836	\$ 358,562
Operating grants	2,217,451	1,949,650
<b>General Revenues</b>		
Property taxes	2,309,025	2,140,590
State school aid, unrestricted	9,769,416	9,667,062
Interest earnings	82,070	99,265
Gain (loss) on disposal of capital assets	1,080	(27,200)
Other	15,022	40,107
<b>Total Revenues</b>	<u>14,725,900</u>	<u>14,228,036</u>
<b>Expenses</b>		
Instruction	8,274,172	8,194,444
Supporting services	4,678,728	4,753,502
Community services	330,033	237,720
Food service	512,617	554,030
Athletics	326,229	350,409
Other	25,571	25,571
Interest expense	1,101,246	1,109,907
Depreciation – unallocated	97,301	121,341
<b>Total Expenses</b>	<u>15,345,897</u>	<u>15,346,923</u>
Decrease in net assets	(619,997)	(1,118,887)
<b>Net Assets - Beginning of Year</b>	<u>190,954</u>	<u>1,309,841</u>
<b>Net Assets - End of Year</b>	<u><b>\$ (429,043)</b></u>	<u><b>\$ 190,954</b></u>

### Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. District wide revenues increased by \$497,864, and expenses decreased by \$1,026. This combination caused a reduction in net assets of \$619,997 compared to the prior year decrease in net assets of \$1,118,887.

The District's total revenues increased by 3.5 percent to \$14.73 million. Property taxes contributed 15.7 percent of revenue while unrestricted state aid accounted for 66.3 percent of the District's revenue. Another 15.1 percent came from federal and state aid for specific programs and the remainder from fees charged for services, investment income and miscellaneous sources.

The total cost of all programs and services remained even at \$15.35 million. The District's expenses are predominantly related to instructing (54 percent) and supporting activities (30.5 percent). Maintaining level expenditures was the result of conservative budgetary projections and close monitoring of District spending practices.

## KENT CITY COMMUNITY SCHOOLS

### Management's Discussion and Analysis June 30, 2008



The recent condition of the District's finances can be attributed to declining enrollment, State financial troubles and operating costs that affect private sector businesses as well. The Board and Administration have been working to set long term goals and short term priorities. These goals and priorities are a driving force in District expenditures.

- Annually changes are made to programs and expense areas to counter rising costs. The goals of the Board of Education are prioritized before each year and changes in programming and operations are made to fit those goals. These changes can be cost reductions or cost shifts. Over the past eight years numerous cuts have been made to the point where any further cuts would result in harm to the District and its function of educating its students.
- The cost of all governmental activities this year was \$15.35 million.
- Some of the cost was financed by the users of the District's programs (\$331,836).
- The federal and state governments subsidized certain programs with grants and contributions (\$2.22 million).
- Most of the District's remaining costs (\$12.8 million) were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2.3 million in property taxes, \$9.8 million of state aid based on the statewide education aid formula and the balance with interest earnings and other local sources.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

*Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it can not use these assets to finance its operations.

# KENT CITY COMMUNITY SCHOOLS

## Management's Discussion and Analysis June 30, 2008



### Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kent City Community Schools funds are described as follows:

#### Major Funds

##### General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$12,412,966, total expenditures of \$12,454,569, other financing sources of \$70,000 and other financing uses of \$246,594. It ended the fiscal year with a fund balance of \$814,888, down from \$1,033,085 at June 30, 2007.

##### Building and Site (Sinking) Capital Projects Fund

The Building and Site Fund had total revenues of \$215,156 and expenditures of \$109,738 during the fiscal year. It ended the year with a fund balance of \$868,467, up from \$763,049 at June 30, 2007.

#### Nonmajor Funds

##### Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletics programs. Total revenues were \$547,910, and other financing sources were \$246,594, with total expenditures of \$793,049. The ending fund balances totaled \$21,235, of which \$9,538 belonged to the Food Service Fund and \$11,697 to the Athletic Fund.

##### Debt Service Funds

The District operates three Debt Service Funds. Total revenues were \$1,547,828, total financing sources (State school bond loan proceeds) were \$239,424 and total expenditures were \$1,863,009. Ending fund balances totaled \$211,064, down from \$286,821 at June 30, 2007.

##### Fiduciary Funds

The Scholarship Funds and the Student Activities Fund are operated as Trust and Agency Funds of the District. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2008 totaled \$213,321.

### General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget twice. These budget amendments and the differences between budgeted and actual amounts were as follows:

- The first budget revision is done at a time when unknown facts during the initial budget passage have become known and a more accurate picture of the District's financial condition is known.
- Final changes made in June for changes in appropriations to prevent line item budget overruns or large surpluses, make adjustments for unanticipated activities that occurred, and give a more accurate picture of the District's financial condition.
- Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$460,355, the actual results for the year showed a decrease of \$218,197.
- Actual revenues were \$86,919 more than expected.
- Actual expenditures were \$149,803 below budget.

## KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis  
June 30, 2008



### Capital Asset and Debt Administration

#### Capital Assets

By the end of 2008, the District had invested \$35.2 million in a broad range of capital assets, including land and improvements, school buildings, athletic facilities, vehicles, and furniture and equipment. More detailed information regarding capital assets can be found in Note E in the Notes to Basic Financial Statements. Total depreciation expense for the year was \$1,081,121.

At June 30, 2008, the District's investment in capital assets (net of accumulated depreciation) is detailed as follows:

Land	\$ 62,544
Land improvements	985,391
Buildings and additions	20,446,735
Furniture and equipment	684,141
Vehicles	229,538
	<hr/>
<b>Net Capital Assets</b>	<b><u>\$ 22,408,349</u></b>

#### Long-Term Debt

At year end, the District had \$20.8 million in general obligation bonds and installment purchase agreements outstanding. The District has also borrowed a total of \$4,135,235 from the State School Bond Loan Program and has an accumulated severance pay liability of \$84,600, accumulated sick leave liability of \$97,152 and early retirement incentive liability of \$61,980.

- The District continued to pay down its debt, retiring \$1,004,764 of outstanding bonds and installment purchase agreements.

The District's bond rating for General Obligation Tax debt remains "Aa". The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. The District's other obligations include advances from the State School Bond Loan Program for bond payments in excess of allowable property taxes. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

### Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The condition of the State of Michigan's economy and how it affects the State's funding level for education for not only the 2008-09 fiscal year but also the next several years. With approximately 82% of the District's revenue coming from the State, in restricted and unrestricted revenue, any reductions made by the State in the funding of education will have a great impact on our District.

## KENT CITY COMMUNITY SCHOOLS

### Management's Discussion and Analysis June 30, 2008



- Lower birth rates and the condition of the economy in the area. State families are starting to move out of the area to areas with better economic opportunities and family sizes are getting smaller. These two factors are causing a reduction in the District's student population, along with a reduction in students on a State wide basis.
- Enacted legislation such as State of Michigan High School Graduation requirements continue to be implemented. As implementation of these requirements continue, the need for increasing student performance becomes a more urgent and higher priority for the Board of Education. The cost of these new requirements and initiatives is just starting, and will continue to increase in the next few years. Increased personnel in teaching areas such as Science, Math and English Language Arts will need to be added, along with curriculum materials and books.
- The Michigan Legislature is continuously changing the areas funded by the School Aid Fund from those originally intended in the initial law. These additional areas of funding reduce the amount available for K – 12 students. Legislation changes and the reduction in property values also contribute to the lowering of funds available.
- Increasing costs of employee benefits, especially health insurance and contributions to the Michigan Public School Employee Retirement System. As in other Districts around the State, union mandates regarding preset wage increases, along with the inflexibility to look at different, less costly insurance benefits, makes the possibility for changing in wages or benefits, while maintaining staffing levels, difficult.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money received. If you have questions about this report or need additional financial information, contact the Business Office, Kent City Community Schools 200 N Clover Street, Kent City, MI 49330 or through the District's website at [www.kentcityschools.org](http://www.kentcityschools.org).

## **BASIC FINANCIAL STATEMENTS**

**KENT CITY COMMUNITY SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2008**

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 450
Cash equivalents, deposits and investments (Note B)	2,126,239
Taxes receivable (Note C)	19,579
Due from other governmental units (Note C)	2,152,863
Inventory (Note A)	6,777
Prepaid expenses	612,258
<b>Total Current Assets</b>	<u>4,918,166</u>
<b>Noncurrent Assets</b>	
Capital assets (Note E)	35,226,835
Less accumulated depreciation	<u>(12,818,486)</u>
<b>Total Noncurrent Assets</b>	<u>22,408,349</u>
<b>Total Assets</b>	<u>27,326,515</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	321,070
State aid anticipation loan payable (Note F)	980,000
Due to other governmental units	522,887
Payroll withholdings payable	6,001
Accrued interest payable	188,197
Salaries payable	528,977
Deferred revenue	9,056
Current portion of long term obligations	1,084,735
<b>Total Current Liabilities</b>	<u>3,640,923</u>
<b>Noncurrent Liabilities (Notes A, G)</b>	
General obligation bonds payable	20,480,000
Durant non-plaintiff bonds payable	187,428
State school bond loan payable	4,135,235
Installment purchase agreements payable	152,975
Accumulated sick leave	97,152
Severance pay	84,600
Early retirement incentive	61,980
Current portion of long term obligations	<u>(1,084,735)</u>
<b>Total Noncurrent Liabilities</b>	<u>24,114,635</u>
<b>Total Liabilities</b>	<u>27,755,558</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	(1,970,620)
Restricted for:	
Debt service	67,472
Capital projects	869,231
Unrestricted	<u>604,874</u>
<b>Total Net Assets</b>	<u><u>\$ (429,043)</u></u>

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 8,274,172	\$ 37,854	\$ 1,820,574	\$ (6,415,744)
Supporting services	4,678,728	1,500	78,336	(4,598,892)
Community services	330,033	63,282	-	(266,751)
Food service	512,617	184,941	318,541	(9,135)
Athletics	326,229	44,259	-	(281,970)
Other	25,571	-	-	(25,571)
Interest on long-term debt	1,101,246	-	-	(1,101,246)
Depreciation - unallocated	97,301	-	-	(97,301)
<b>Total Governmental Activities</b>	<b>\$ 15,345,897</b>	<b>\$ 331,836</b>	<b>\$ 2,217,451</b>	<b>(12,796,610)</b>
<b>General Revenues</b>				
Taxes:				
Property taxes, levied for general operations				589,868
Property taxes, levied for debt service				1,533,740
Property taxes, levied for capital improvements				185,417
State school aid, unrestricted				9,769,416
Interest and investment earnings				82,070
Gain on disposal of capital assets				1,080
Other				15,022
<b>Total General Revenues</b>				<b>12,176,613</b>
<b>Change in Net Assets</b>				<b>(619,997)</b>
<b>Net Assets - Beginning of Year</b>				<b>190,954</b>
<b>Net Assets - End of Year</b>				<b>\$ (429,043)</b>

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	General	Building and Site	Nonmajor	Total
<b>Assets</b>				
Cash	\$ 100	\$ -	350	\$ 450
Cash equivalents, deposits and investments (Note B)	967,016	889,638	269,585	2,126,239
Receivables:				
Taxes (Note C)	12,483	764	6,332	19,579
Due from other funds (Note D)	55,758	2,463	42,421	100,642
Due from other governmental units (Note C)	2,148,925	-	3,938	2,152,863
Inventory (Note A)	-	-	6,777	6,777
Prepaid expenditures	33,380	-	-	33,380
<b>Total Assets</b>	<u><u>\$ 3,217,662</u></u>	<u><u>\$ 892,865</u></u>	<u><u>\$ 329,403</u></u>	<u><u>\$ 4,439,930</u></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 274,989	\$ -	\$ 46,081	\$ 321,070
State aid anticipation loan payable (Note F)	980,000	-	-	980,000
Due to other funds (Note D)	44,884	23,254	32,504	100,642
Due to other governmental units	519,376	380	3,131	522,887
Payroll withholdings payable	6,001	-	-	6,001
Accrued interest payable	36,064	-	-	36,064
Salaries payable	528,977	-	-	528,977
Deferred revenue	12,483	764	15,388	28,635
<b>Total Liabilities</b>	<u>2,402,774</u>	<u>24,398</u>	<u>97,104</u>	<u>2,524,276</u>
<b>Fund Balances</b>				
Reserved for:				
Debt service	-	-	211,064	211,064
Capital outlay	-	868,467	-	868,467
Unreserved:				
Undesignated, reported in:				
General fund	814,888	-	-	814,888
Special revenue funds	-	-	21,235	21,235
<b>Total Fund Balances</b>	<u>814,888</u>	<u>868,467</u>	<u>232,299</u>	<u>1,915,654</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 3,217,662</u></u>	<u><u>\$ 892,865</u></u>	<u><u>\$ 329,403</u></u>	<u><u>\$ 4,439,930</u></u>

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2008**

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<b>Total governmental fund balances</b>		\$ 1,915,654
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$35,226,835 and accumulated depreciation is \$12,818,486.		
		22,408,349
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		
		578,878
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(20,480,000)	
Durant non-plaintiff bonds	(187,428)	
State school bond loan	(4,135,235)	
Installment purchase agreements	(152,975)	
Accumulated sick leave	(97,152)	
Severance pay	(84,600)	
Early retirement incentive	<u>(61,980)</u>	(25,199,370)
Accrued interest is not included as a liability in governmental funds.		
		(152,133)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<u>19,579</u>
<b>Total net assets - governmental activities</b>		<u><u>\$ (429,043)</u></u>

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2008**

	General	Building and Site	Nonmajor	Total
<b>Revenues</b>				
Local sources	\$ 744,640	\$ 215,156	\$ 1,777,197	\$2,736,993
State sources	10,173,313	-	35,655	10,208,968
Federal sources	742,927	-	282,886	1,025,813
Interdistrict sources	752,086	-	-	752,086
<b>Total Revenues</b>	<u>12,412,966</u>	<u>215,156</u>	<u>2,095,738</u>	<u>14,723,860</u>
<b>Expenditures</b>				
Current:				
Instruction	7,839,191	-	-	7,839,191
Supporting services	4,270,771	-	-	4,270,771
Community services	269,880	-	20,584	290,464
Food service	-	-	492,292	492,292
Athletics	-	-	280,173	280,173
Capital outlay	-	109,738	-	109,738
Debt service:				
Principal repayment	69,764	-	935,000	1,004,764
Interest and fiscal charges	4,963	-	928,009	932,972
<b>Total Expenditures</b>	<u>12,454,569</u>	<u>109,738</u>	<u>2,656,058</u>	<u>15,220,365</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(41,603)</u>	<u>105,418</u>	<u>(560,320)</u>	<u>(496,505)</u>
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	70,000	-	239,424	309,424
Transfers in	-	-	383,594	383,594
Transfers out	(246,594)	-	(137,000)	(383,594)
<b>Total Other Financing Sources (Uses)</b>	<u>(176,594)</u>	<u>-</u>	<u>486,018</u>	<u>309,424</u>
<b>Net Change in Fund Balances</b>	(218,197)	105,418	(74,302)	(187,081)
<b>Fund Balances, Beginning of Year</b>	<u>1,033,085</u>	<u>763,049</u>	<u>306,601</u>	<u>2,102,735</u>
<b>Fund Balances, End of Year</b>	<u><u>\$ 814,888</u></u>	<u><u>\$ 868,467</u></u>	<u><u>\$ 232,299</u></u>	<u><u>\$ 1,915,654</u></u>

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2008**

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**Net change in fund balances - total governmental funds** \$ (187,081)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ 125,418	
Depreciation expense	<u>(1,081,121)</u>	(955,703)

Undepreciated cost of assets disposed during the year	(5,676)
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As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities.	7,716
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Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets.	(480,146)
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Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.	(25,571)
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Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of bonds	935,000	
Repayment of installment purchase agreements	<u>69,764</u>	1,004,764

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.	2,448
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In the Statement of Net Assets, accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$127,548) exceeded the benefits earned (\$108,296).	<u>19,252</u>
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<b>Total changes in net assets - governmental activities</b>	<u><u>\$ (619,997)</u></u>
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See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2008**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 704,530	\$ 738,100	\$ 744,640	\$ 6,540
State sources	9,789,840	10,145,591	10,173,313	27,722
Federal sources	667,411	716,291	742,927	26,636
Interdistrict sources	754,200	726,065	752,086	26,021
<b>Total Revenues</b>	<b>11,915,981</b>	<b>12,326,047</b>	<b>12,412,966</b>	<b>86,919</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	6,246,553	6,520,697	6,400,019	120,678
Added needs	1,172,234	1,439,759	1,439,172	587
Supporting services:				
Pupil services	495,426	381,984	349,190	32,794
Instructional staff services	366,305	362,215	367,338	(5,123)
General administrative services	275,525	279,025	258,641	20,384
School administrative services	596,920	625,715	628,708	(2,993)
Business services	216,395	239,652	250,781	(11,129)
Operation and maintenance services	1,124,252	1,159,030	1,202,327	(43,297)
Pupil transportation services	901,590	953,769	953,695	74
Central services	174,845	271,850	260,091	11,759
Community services	181,125	274,656	269,880	4,776
Debt service:				
Principal repayment	96,625	86,625	69,764	16,861
Interest and fiscal charges	6,695	6,695	4,963	1,732
Interdistrict	172,700	2,700	-	2,700
<b>Total Expenditures</b>	<b>12,027,190</b>	<b>12,604,372</b>	<b>12,454,569</b>	<b>149,803</b>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<b>(111,209)</b>	<b>(278,325)</b>	<b>(41,603)</b>	<b>236,722</b>
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	71,800	71,800	70,000	(1,800)
Transfers out	(258,000)	(253,830)	(246,594)	7,236
<b>Total Other Financing Sources (Uses)</b>	<b>(186,200)</b>	<b>(182,030)</b>	<b>(176,594)</b>	<b>5,436</b>
<b>Net Change in Fund Balances</b>	<b>(297,409)</b>	<b>(460,355)</b>	<b>(218,197)</b>	<b>242,158</b>
<b>Fund Balances, July 1</b>	<b>1,033,085</b>	<b>1,033,085</b>	<b>1,033,085</b>	<b>-</b>
<b>Fund Balances, June 30</b>	<b>\$ 735,676</b>	<b>\$ 572,730</b>	<b>\$ 814,888</b>	<b>\$ 242,158</b>

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Assets**  
**June 30, 2008**

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	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash equivalents, deposits and investments (Note B)	<u>\$ 51,178</u>	<u>\$ 162,143</u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u>\$ 162,143</u>
<b>Net Assets</b>		
Held in trust for: Individuals and organizations	<u>\$ 51,178</u>	

See accompanying notes to basic financial statements.

**KENT CITY COMMUNITY SCHOOLS**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Assets**  
**For the year ended June 30, 2008**

	Private Purpose Trust Fund
<b>Additions</b>	
Donations	\$ 10,130
Interest earnings	1,434
<b>Total Additions</b>	<u>11,564</u>
<b>Deductions</b>	
Endowment activities - scholarships	<u>13,027</u>
<b>Change In Net Assets</b>	(1,463)
<b>Net Assets, Beginning of Year</b>	<u>52,641</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 51,178</u></u>

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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## **Note A – Summary of Significant Accounting Policies**

Kent City Community Schools was organized under the School Code of the State of Michigan and services a population of approximately 1,429 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, vocational education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kent City Community Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

### **1. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

### **2. District-Wide and Fund Financial Statements**

**District-Wide Financial Statements** - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the Building and Site Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

#### **Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

*Debt Service Funds*—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

*Capital Projects Funds*—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

### **Fiduciary Funds**

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kent City Community Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Kent City Community Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

#### **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

#### **6. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

#### **7. Inventory**

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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## **8. Capital Assets**

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$2,500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and improvements	15-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

## **9. Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

## **10. Accumulated Sick Leave/Severance Pay/Early Retirement Incentive**

Accumulated sick leave, severance pay and early retirement incentive at June 30, 2008 has been computed and recorded in the basic financial statements of the District. Eligible District employees who retire and/or select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2008, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated sick leave, severance pay and early retirement incentive amounted to \$97,152, \$84,600 and \$61,980, respectively.

## **11. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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**12. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**13. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents, Deposits and Investments**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Balances at June 30, 2008 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 2,126,239
Fiduciary Funds:	
Trust and Agency Funds	<u>213,321</u>
	<u><u>\$ 2,339,560</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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**Cash Equivalents**

Depositories actively used by the District during the year are detailed as follows:

1. Choice One Bank

Cash equivalents consist of bank public funds checking and money market accounts and deposits consist of certificates of deposit.

Balances at June 30, 2008 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	\$ 693,289
Deposits	<u>772,890</u>
	<u><u>\$ 1,466,179</u></u>

*Custodial credit risk*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits were \$1,466,179 and the bank balance was \$1,566,588. Of the bank balance, \$419,404 was covered by federal depository insurance and \$1,147,184 was uninsured.

**Investments**

As of June 30, 2008 the District had the following investments:

	<u><b>Fair Value</b></u>
Pooled Investment Accounts:	
Fifth Third Bank	\$ 76,110
Michigan Liquid Asset Fund Plus	<u>797,271</u>
	<u><u>\$ 873,381</u></u>

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

*Credit Risk*

The District's investments in the bank and Michigan Liquid Asset Fund investment pools were unrated.

*Interest Rate Risk*

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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*Concentration of Credit Risk*

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

*Foreign Currency Risk*

The District is not authorized to invest in investments which have this type of risk.

**Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2007 ad valorem State Education Taxes generated within the Kent City Community School District, and paid to the State of Michigan, totaled \$1,087,706.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2007 and September 2007. The 2007-08 "Foundation Allowance" for Kent City Community Schools was \$7,204 for 1,421 "Full Time Equivalent" students, generating \$10,110,075 in state aid payments to the District, of which \$1,836,748 was paid to the District in July and August, 2008 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 (the tax lien date) by the Townships of Solon, Sparta, Tyrone, Casnovia, Grant and Chester, and are due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent, Muskegon, Newaygo and Ottawa, through their Delinquent Tax Revolving Funds, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

<b>Year</b>	<b>General Fund</b>	<b>Debt Service Funds</b>	<b>Building and Site Fund</b>	<b>Total</b>
2007	\$ 5,919	\$ 3,273	\$ 397	\$ 9,589
2006	5,721	2,666	320	8,707
2005	843	393	47	1,283
	<u>\$ 12,483</u>	<u>\$ 6,332</u>	<u>\$ 764</u>	<u>\$ 19,579</u>

Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Kent City Community Schools' electors previously (June, 1999) approved a ten year operating millage extension for the 18 mill non-homestead property tax. Only 17.533 mills were levied in 2007 due to reductions caused by the Headlee Amendment.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

The District levied 8.25 mills in 2007 for debt service purposes and 1.0 mill for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

**Note D – Interfund Receivables/Payables and Transfers**

Amounts due from (to) other funds, representing short-term interfund receivables and payables for year end expenditure reimbursements and property tax allocations at June 30, 2008, are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ 3,222	\$ 19,195
Debt Service Funds:		
1997 Debt Service Fund	103	1,836
2001 Debt Service Fund	19,135	14,370
2005 Debt Service Fund	5,465	3,819
2006 Debt Service Fund	4,579	3,201
Capital Projects Fund:		
Building and Site Fund	23,254	2,463
	<u>55,758</u>	<u>44,884</u>
Special Revenue Fund:		
Food Service Fund:		
General Fund	19,195	3,222
Debt Service Funds:		
1997 Debt Service Fund:		
General Fund	1,836	103
2001 Debt Service Fund:		
General Fund	14,370	19,135
2005 Debt Service Fund:		
General Fund	3,819	5,465
2006 Debt Service Fund:		
General Fund	3,201	4,579
	<u>\$ 23,226</u>	<u>\$ 29,282</u>

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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	<u>Due From</u>	<u>Due To</u>
Capital Projects Fund:		
Building and Site Fund:		
General Fund	\$ 2,463	\$ 23,254
<b>Total All Funds</b>	<u>\$ 100,642</u>	<u>\$ 100,642</u>

Transfers between funds during the year ended June 30, 2008 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 10,000
Athletics Fund	—	236,594
	<u>—</u>	<u>246,594</u>
Special Revenue Funds:		
Food Service Fund:		
General Fund	10,000	—
Athletics Fund:		
General Fund	236,594	—
	<u>246,594</u>	<u>—</u>
Debt Service Funds:		
2001 Debt Fund	—	137,000
2006 Debt Fund	137,000	—
	<u>137,000</u>	<u>137,000</u>
<b>Total All Funds</b>	<u>\$ 383,594</u>	<u>\$ 383,594</u>

The General Fund transfers were made to support the District food service and athletic programs for the fiscal year. The debt service transfer was made to reallocate property tax revenues.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balances July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2008</u>
Capital assets not depreciated:				
Land	\$ 57,486	\$ 5,058	\$ —	\$ 62,544
Capital assets being depreciated:				
Land improvements	1,947,752	10,940	—	1,958,692
Buildings and additions	30,808,358	—	—	30,808,358
Furniture and equipment	1,086,865	39,370	11,300	1,114,935
Vehicles	1,318,095	70,050	105,839	1,282,306
	<u>35,218,556</u>	<u>\$ 125,418</u>	<u>\$ 117,139</u>	<u>35,226,835</u>
Totals at historical cost				
	<u>35,218,556</u>	<u>\$ 125,418</u>	<u>\$ 117,139</u>	<u>35,226,835</u>
Less accumulated depreciation for:				
Land improvements	\$ 863,734	\$ 109,567	\$ —	\$ 973,301
Buildings and additions	9,624,240	737,383	—	10,361,623
Furniture and equipment	335,291	104,627	9,124	430,794
Vehicles	1,025,563	129,544	102,339	1,052,768
	<u>11,848,828</u>	<u>\$ 1,081,121</u>	<u>\$ 111,463</u>	<u>12,818,486</u>
Total accumulated depreciation				
	<u>11,848,828</u>	<u>\$ 1,081,121</u>	<u>\$ 111,463</u>	<u>12,818,486</u>
<b>Net Capital Assets</b>	<u><u>\$ 23,369,728</u></u>			<u><u>\$ 22,408,349</u></u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 453,638
Supporting services	424,232
Community services	39,569
Food service	20,325
Athletics	46,056
Unallocated	97,301
	<u>\$ 1,081,121</u>

**Note F – Short-term Debt**

The \$970,000 August 19, 2006 state aid anticipation loan was repaid on August 18, 2007. On August 18, 2007, the District borrowed \$980,000 in anticipation of state aid (interest at 3.68%), due in full on August 20, 2008. Total interest cost on the loans was \$36,064 for the fiscal year.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**Note G – Long-term Debt**

Amounts available and to be provided for outstanding long-term debt at June 30, 2008 are summarized as follows:

	<b>General Obligation Bonds</b>	<b>Durant Non-plaintiff Bonds</b>	<b>State School Bond Loan</b>	<b>Installment Purchase Agreements</b>	<b>Accumulated Sick Leave/ Severance/ Early Retirement Incentive Pay</b>	<b>Total</b>
<b>Amount Available For Retirement Of Long-Term Debt</b>						
Debt Service Funds	\$ 211,064	\$ —	\$ —	\$ —	\$ —	\$ 211,064
<b>Amounts To Be Provided For Retirement Of Long-Term Debt</b>						
State of Michigan	—	187,428	—	—	—	187,428
General Fund	—	—	—	152,975	243,732	396,707
Debt Service Funds	20,268,936	—	4,135,235	—	—	24,404,171
<b>Total Amounts Available and To Be Provided</b>	<b>\$20,480,000</b>	<b>\$ 187,428</b>	<b>\$4,135,235</b>	<b>\$ 152,975</b>	<b>\$ 243,732</b>	<b>\$25,199,370</b>

Changes in long-term debt for the year ended June 30, 2008 are summarized as follows:

	<b>Debt Outstanding July 1, 2007</b>	<b>Debt Added</b>	<b>Debt Retired</b>	<b>Debt Outstanding June 30, 2008</b>
General obligation bonds:				
November 1, 2001	\$ 8,070,000	\$ —	550,000	\$ 7,520,000
August 4, 2005	4,370,000	—	360,000	4,010,000
February 7, 2006	8,975,000	—	25,000	8,950,000
Durant non-plaintiff bonds:				
November 13, 1998	187,428	—	—	187,428
State school bond loan	3,725,089	410,146	—	4,135,235
Installment purchase agreements	152,739	70,000	69,764	152,975
Accumulated sick leave	95,803	12,572	11,223	97,152
Severance pay	91,050	4,800	11,250	84,600
Early retirement incentive	76,131	90,924	105,075	61,980
	<b>\$ 25,743,240</b>	<b>\$ 588,042</b>	<b>\$ 1,132,312</b>	<b>\$ 25,199,370</b>

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

Long-term bonds, notes and installment purchase agreements at June 30, 2008 are comprised of the following:

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>General Obligation Bonds</b>				
\$18,150M Building and Site November 1, 2001: Annual maturities of \$470M to \$725M	May 1, 2020	4.25 – 4.80	\$ 7,520,000	\$ 550,000
\$4,370M Refunding August 4, 2005: Annual maturities of \$360M to \$365M	May 1, 2019	3.50 – 5.00	4,010,000	360,000
\$9,000M Refunding February 7, 2006: Annual maturities of \$30M to \$765M	May 1, 2031	3.20 – 4.375	8,950,000	30,000
<b>Durant Non-plaintiff Bonds</b>				
\$900,023 School Improvement November 13, 1998: Annual maturities of \$17,666 to \$108,789	May 15, 2013	4.761353	187,428	17,666
<b>Installment Purchase Agreements</b>				
School Buses:				
\$116,238 August 18, 2003	Aug. 18, 2008	3.29	12,496	12,496
\$59,100 August 19, 2004	Aug. 19, 2009	3.44	18,800	12,426
\$63,300 June 22, 2007	June 22, 2012	4.24	51,679	12,118
\$70,000 June 26, 2008	June 26, 2013	3.49	70,000	13,049
			<u>\$20,820,403</u>	<u>\$ 1,007,755</u>

The District is required to obtain loans from the Michigan School Bond Loan Fund (the “Fund”) for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, the District borrowed \$239,424 from the Fund and \$170,722 of accrued interest was added to the District’s liability to the Fund. At June 30, 2008, the District owed the Fund a total of \$4,135,235.

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 1,007,755	\$ 894,273	\$ 1,902,028
2010	1,111,309	892,077	2,003,386
2011	1,016,550	809,196	1,825,746
2012	1,033,513	763,912	1,797,425
2013	991,276	717,472	1,708,748

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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Year Ended June 30	Principal	Interest	Total
2014	\$ 1,025,000	\$ 672,684	\$ 1,697,684
2015	1,075,000	625,951	1,700,951
2016	1,125,000	576,351	1,701,351
2017	1,125,000	527,364	1,652,364
2018	1,130,000	477,651	1,607,651
2019	1,130,000	427,014	1,557,014
2020	765,000	376,014	1,141,014
2021	765,000	341,654	1,106,654
2022	760,000	311,054	1,071,054
2023	760,000	280,654	1,040,654
2024	755,000	250,254	1,005,254
2025	745,000	220,054	965,054
2026	765,000	190,254	955,254
2027	760,000	158,889	918,889
2028	755,000	127,349	882,349
2029	745,000	95,638	840,638
2030	740,000	63,976	803,976
2031	735,000	32,156	767,156
	\$ 20,820,403	\$ 9,831,891	\$ 30,652,294

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On February 7, 2006, the District defeased 2001 general obligation serial bonds by placing the proceeds of newly issued bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, with final payment scheduled on May 1, 2011. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$8,380,000 of the 2001 bonds outstanding is considered defeased.

## **Note H – Retirement Plan**

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2008 was \$6,468,905. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan-Fixed (MIP-Fixed). Effective January 1, 1990, all new employees are automatically enrolled in the MIP-Graded Plan. Participants in the MIP-Fixed or MIP-Graded Plans receive benefits in addition to those available under the Basic Plan. The contribution rate for MIP-Fixed participants is 3.9% of salary. The contribution rate for MIP-Graded participants is a graduated rate based on total wages: calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000.

**Notes to Basic Financial Statements**  
**June 30, 2008**

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All MIP members may retire at age 46 with 30 years of service; at age 60 with 5 years of service; at age 55 with 15 years of service (with stipulations); at age 60 with 10 years of service; or at age 60 with 5 years of service (with stipulations). Benefits are based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 17.74% for the fiscal year ending September 30, 2007 and 16.72% for the fiscal year beginning October 1, 2007. The District's contributions to the plan for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,054,848, \$1,194,153 and \$1,047,060, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools, instead using the aggregate actuarial cost method. The actuarial accrued liability at September 30, 2006 (the latest reporting date available expressed as \$ in millions) for retirement benefits for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$49,136. Net assets available for retirement benefits on that date were \$42,995 leaving an unfunded actuarial accrued liability of \$6,141. The total unfunded actuarial accrued liability decreased by \$3,102 from September 30, 2005 to September 30, 2006. At September 30, 2006 the funded ratio of actuarial accrued liability was 87.5%; covered payroll totaled \$9,806, and unfunded actuarial accrued liability was 62.6% of covered payroll.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above. At September 30, 2006, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole (expressed as \$ in millions) was \$25,387. The MPSERS net assets available for these benefits were \$630 leaving an unfunded actuarial accrued liability of \$24,757. This is the first year of reporting this liability, which is now required to be disclosed in compliance with Governmental Accounting Standards Board (GASB) Statement No. 43. At September 30, 2006 the funded ratio of actuarial liability was 2.5%; covered payroll totaled \$9,806, and unfunded actuarial liability was 252.5% of covered payroll.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2007 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

## **Note I – Risk Management and Benefits**

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$250,000 and \$1,175,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$53,233 in premiums to the Trust for the year ended June 30, 2008.

**KENT CITY COMMUNITY SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

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The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$400,000 of any workers' compensation or employers' liability loss out of an \$2,122,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2008, there were no material pending claims against the District. The District paid \$54,726 in premiums to the Fund for the year ended June 30, 2008.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note J – Stewardship, Compliance and Accountability**

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2008, as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Unfavorable Variance</b>
General Fund:			
Instructional staff services	\$ 362,215	\$ 367,338	\$ 5,123
School administrative services	625,715	628,708	2,993
Business services	239,652	250,781	11,129
Operation and maintenance services	1,159,030	1,202,327	43,297
Food Service Special Revenue Fund:			
Food service	447,950	492,292	44,342

## **SUPPLEMENTAL INFORMATION**

## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash	\$ 100	\$ 100
Cash equivalents, deposits and investments	967,016	1,134,236
Receivables:		
Taxes	12,483	7,788
Accounts	-	28,113
Due from other funds	55,758	102,835
Due from other governmental units	2,148,925	1,804,605
Prepaid expenditures	33,380	124,217
<b>Total Assets</b>	<u><u>\$ 3,217,662</u></u>	<u><u>\$ 3,201,894</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 274,989	\$ 218,732
State aid anticipation loan payable	980,000	970,000
Due to other funds	44,884	59,471
Due to other governmental units	519,376	278,654
Payroll withholdings payable	6,001	681
Accrued interest payable	36,064	35,533
Salaries payable	528,977	577,842
Deferred revenue	12,483	27,896
<b>Total Liabilities</b>	<u>2,402,774</u>	<u>2,168,809</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	814,888	1,033,085
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 3,217,662</u></u>	<u><u>\$ 3,201,894</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
Local sources:		
Property taxes:		
Current property taxes	\$ 581,831	\$ 556,386
Other taxes	1,017	24
Interest on delinquent taxes	2,325	2,237
	<u>585,173</u>	<u>558,647</u>
Interest earnings:		
Interest on deposits and investments	37,950	61,110
Other local revenue:		
Community enrichment fees	3,634	9,318
Drivers education	21,433	19,425
Preschool	16,421	16,758
Childcare fees	40,168	34,132
Transportation fees	1,500	1,714
Pool receipts	19,480	24,285
Rental of school facilities	2,158	2,490
Sale of school property	6,756	2,370
Refunds of expenditures	5,167	25,441
Miscellaneous	4,800	12,176
	<u>121,517</u>	<u>148,109</u>
Total local sources	744,640	767,866
State sources:		
State aid	10,094,977	9,977,594
Special education - transportation	44,642	-
Special education - itinerants	33,694	6,886
Total state sources	<u>10,173,313</u>	<u>9,984,480</u>
Federal sources:		
Title I	151,797	145,786
Title I - Migrant	174,685	163,157
Title IIA	73,801	31,633
Title IID	2,954	-
Title III - Migrant	29,197	13,173
Title V	291	294
Summer food program	-	18,888
I.D.E.A. program	304,659	250,781
Medicaid - school based	1,626	58
Drug free schools	3,917	4,339
Service provider review	-	2,786
Total federal sources	<u>742,927</u>	<u>630,895</u>
Interdistrict sources:		
Special education - county	632,518	660,014
Durant settlement reimbursements	3,380	3,379
Medicaid reimbursement	67,033	62,315
School liason program	49,155	40,752
Total interdistrict sources	<u>752,086</u>	<u>766,460</u>
<b>Total Revenues</b>	<u><u>\$ 12,412,966</u></u>	<u><u>\$ 12,149,701</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 1,816,859	\$ 1,741,925
Employee benefits	887,416	818,850
Purchased services	64,386	69,236
Supplies	116,860	40,059
Miscellaneous	3,037	1,078
	<u>2,888,558</u>	<u>2,671,148</u>
Middle school:		
Salaries	773,757	839,942
Employee benefits	407,762	444,756
Purchased services	26,007	28,406
Supplies	86,420	31,006
	<u>1,293,946</u>	<u>1,344,110</u>
High school:		
Salaries	1,335,306	1,279,902
Employee benefits	653,517	673,619
Purchased services	55,182	34,756
Supplies	63,795	50,302
Capital outlay	-	1,265
Miscellaneous	7,578	3,532
	<u>2,115,378</u>	<u>2,043,376</u>
Preschool:		
Salaries	72,207	58,724
Employee benefits	17,655	14,765
Purchased services	765	4,529
Supplies	6,516	14,689
	<u>97,143</u>	<u>92,707</u>
Driver's education:		
Salaries	2,571	20,234
Employee benefits	627	5,032
Supplies	1,796	64
	<u>4,994</u>	<u>25,330</u>
Total basic programs	6,400,019	6,176,671
Added needs:		
Special education:		
Salaries	503,024	606,886
Employee benefits	276,308	306,540
Purchased services	18,847	8,160
Supplies	1,593	3,473
Payments to other districts	236,411	167,934
	<u>1,036,183</u>	<u>1,092,993</u>
Compensatory education:		
Salaries	277,961	247,380
Employee benefits	119,524	101,366
Purchased services	440	1,036

(Continued)

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
Compensatory education: (Continued)		
Supplies	\$ 2,315	\$ 4,981
Miscellaneous	2,749	2,179
	<u>402,989</u>	<u>356,942</u>
Total added needs	1,439,172	1,449,935
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	15,595	143,153
Employee benefits	9,296	69,547
Purchased services	18,240	11,902
Supplies	-	81
	<u>43,131</u>	<u>224,683</u>
Health services:		
Salaries	3,071	3,528
Employee benefits	345	314
	<u>3,416</u>	<u>3,842</u>
School psychologist services:		
Employee benefits	1,457	-
Purchased services	652	2,138
Supplies	2,317	2,244
Payments to other districts	60,109	86,055
	<u>64,535</u>	<u>90,437</u>
Speech pathology services:		
Employee benefits	1,267	1,014
Purchased services	31,120	37,708
Supplies	611	582
Payments to other districts	87,567	89,073
	<u>120,565</u>	<u>128,377</u>
Social worker services:		
Employee benefits	1,267	1,009
Purchased services	75	11,244
Supplies	746	445
Payments to other districts	93,104	86,716
	<u>95,192</u>	<u>99,414</u>
Teacher consultant services:		
Salaries	15,596	15,089
Employee benefits	6,755	7,416
	<u>22,351</u>	<u>22,505</u>
Total pupil services	349,190	569,258
Instructional staff services:		
Improvement of instruction:		
Salaries	4,660	-
Employee benefits	6,056	-
Purchased services	55,365	-
Miscellaneous	7,720	-
	<u>73,801</u>	<u>-</u>

(Continued)

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
Educational media services:		
Salaries	\$ 98,043	\$ 105,287
Employee benefits	54,244	57,220
Purchased services	676	492
Supplies	18,510	15,934
	<u>171,473</u>	<u>178,933</u>
Special education supervisor:		
Salaries	80,330	99,787
Employee benefits	41,093	55,975
Purchased services	130	1,154
Supplies	495	608
Miscellaneous	16	130
	<u>122,064</u>	<u>157,654</u>
Total instructional staff services	367,338	336,587
General administrative services:		
Board of education:		
Salaries	-	500
Employee benefits	-	127
Purchased services	87,670	64,860
Supplies	302	117
Miscellaneous	10,094	8,585
	<u>98,066</u>	<u>74,189</u>
Executive administration:		
Salaries	95,000	127,406
Employee benefits	47,034	58,181
Purchased services	14,998	27,444
Supplies	1,418	2,012
Capital outlay	-	1,165
Miscellaneous	2,125	2,443
	<u>160,575</u>	<u>218,651</u>
Total general administrative services	258,641	292,840
School administrative services:		
Office of the principal:		
Salaries	404,136	363,834
Employee benefits	213,703	183,264
Purchased services	3,171	29,076
Supplies	3,473	5,283
Capital outlay	2,200	-
Miscellaneous	2,025	1,070
	<u>628,708</u>	<u>582,527</u>
Total school administrative services	628,708	582,527
Business services:		
Fiscal services:		
Salaries	108,225	100,665
Employee benefits	55,509	54,513
Purchased services	4,523	4,316
Supplies	2,965	2,691
Capital outlay	-	2,122
Miscellaneous	5,009	2,021
	<u>176,231</u>	<u>166,328</u>

(Continued)

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
Other business services:		
Purchased services	\$ 3,367	\$ -
Miscellaneous	71,183	53,330
	<u>74,550</u>	<u>53,330</u>
Total business services	250,781	219,658
Operation and maintenance services:		
Operation and maintenance:		
Salaries	\$ 83,546	\$ 346,052
Employee benefits	91,469	198,253
Purchased services	564,655	218,874
Supplies	457,059	470,030
Capital outlay	5,118	-
Miscellaneous	480	2,081
	<u>1,202,327</u>	<u>1,235,290</u>
Total operation and maintenance services		
Pupil transportation services:		
Pupil transportation:		
Salaries	379,587	370,890
Employee benefits	233,084	219,247
Purchased services	143,077	91,922
Supplies	123,627	90,616
Miscellaneous	4,270	2,701
Capital outlay	70,050	63,377
	<u>953,695</u>	<u>838,753</u>
Total pupil transportation services		
Central services:		
Technology support:		
Salaries	63,160	63,160
Employee benefits	33,049	31,764
Purchased services	38,376	47,625
Supplies	28,933	16,156
Capital outlay	96,573	3,025
	<u>260,091</u>	<u>161,730</u>
Total central services		
Community services:		
Community pool:		
Salaries	44,503	71,403
Employee benefits	5,386	10,600
Purchased services	2,142	1,661
Supplies	4,463	6,142
Miscellaneous	-	50
	<u>56,494</u>	<u>89,856</u>
Great Start:		
Salaries	16,254	29,333
Employee benefits	2,784	7,413
Purchased services	297	-
Supplies	232	1,326
	<u>19,567</u>	<u>38,072</u>

(Continued)

**KENT CITY COMMUNITY SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
Early Eagles:		
Salaries	\$ 26,810	\$ -
Employee benefits	7,638	-
Purchased services	2,077	-
Supplies	840	-
	<u>37,365</u>	<u>-</u>
Summer food program - migrant:		
Salaries	-	6,651
Employee benefits	99	1,596
Supplies	-	11,413
	<u>99</u>	<u>19,660</u>
Shared time:		
Salaries	57,602	-
Employee benefits	14,092	-
	<u>71,694</u>	<u>-</u>
Other community services:		
Purchased services	84,661	40,787
Total community services	<u>269,880</u>	<u>188,375</u>
Debt service:		
Principal repayment	\$ 69,764	\$ 90,622
Interest and fiscal charges	4,963	5,772
Total debt service	<u>74,727</u>	<u>96,394</u>
<b>Total Expenditures</b>	<u><u>\$ 12,454,569</u></u>	<u><u>\$ 12,148,018</u></u>

## **NONMAJOR FUNDS**

**KENT CITY COMMUNITY SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2008**

	Special Revenue	
	Food Service	Athletics
<b>Assets</b>		
Cash	\$ -	\$ 350
Cash equivalents, deposits and investments	36,082	13,252
Taxes receivable	-	-
Due from other funds	19,195	-
Due from other governmental units	3,938	-
Inventory	6,777	-
<b>Total Assets</b>	<b>\$ 65,992</b>	<b>\$ 13,602</b>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 44,176	\$ 1,905
Due to other funds	3,222	-
Due to other governmental units	-	-
Deferred revenue	9,056	-
<b>Total Liabilities</b>	<b>56,454</b>	<b>1,905</b>
<b>Fund Balances</b>		
Reserved for debt service	-	-
Unreserved:		
Undesignated	9,538	11,697
<b>Total Fund Balances</b>	<b>9,538</b>	<b>11,697</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 65,992</b>	<b>\$ 13,602</b>

Debt Service				
1997	2001	2005	2006	Total
\$ -	\$ -	\$ -	\$ -	\$ 350
72,978	106,061	22,079	19,133	269,585
848	3,659	991	834	6,332
1,836	14,370	3,819	3,201	42,421
-	-	-	-	3,938
-	-	-	-	6,777
<u>\$ 75,662</u>	<u>\$ 124,090</u>	<u>\$ 26,889</u>	<u>\$ 23,168</u>	<u>\$ 329,403</u>
\$ -	\$ -	\$ -	\$ -	\$ 46,081
103	19,135	5,465	4,579	32,504
1,575	1,556	-	-	3,131
848	3,659	991	834	15,388
<u>2,526</u>	<u>24,350</u>	<u>6,456</u>	<u>5,413</u>	<u>97,104</u>
73,136	99,740	20,433	17,755	211,064
-	-	-	-	21,235
<u>73,136</u>	<u>99,740</u>	<u>20,433</u>	<u>17,755</u>	<u>232,299</u>
<u>\$ 75,662</u>	<u>\$ 124,090</u>	<u>\$ 26,889</u>	<u>\$ 23,168</u>	<u>\$ 329,403</u>

**KENT CITY COMMUNITY SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2008**

	Special Revenue	
	Food Service	Athletics
<b>Revenues</b>		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	119	50
Sales and admissions	184,941	44,259
Other local sources	-	-
Total local sources	185,060	44,309
State sources	35,655	-
Federal sources	282,886	-
<b>Total Revenues</b>	<b>503,601</b>	<b>44,309</b>
<b>Expenditures</b>		
Current:		
Food service	492,292	-
Athletics	-	280,173
Community services	20,584	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
<b>Total Expenditures</b>	<b>512,876</b>	<b>280,173</b>
<b>Excess (Deficiency) of Revenues</b>		
<b>Over Expenditures</b>	<b>(9,275)</b>	<b>(235,864)</b>
<b>Other Financing Sources</b>		
Loan proceeds	-	-
Transfers in	10,000	236,594
Transfers out	-	-
<b>Total Other Financing Sources</b>	<b>10,000</b>	<b>236,594</b>
<b>Net Change in Fund Balances</b>	<b>725</b>	<b>730</b>
<b>Fund Balances, July 1</b>	<b>8,813</b>	<b>10,967</b>
<b>Fund Balances, June 30</b>	<b>\$ 9,538</b>	<b>\$ 11,697</b>

Debt Service				
1997	2001	2005	2006	Total
\$ 4,615	\$ 999,032	\$ 286,785	\$ 240,601	\$ 1,531,033
1,044	9,558	2,095	1,201	14,067
-	-	-	-	229,200
-	-	-	2,897	2,897
5,659	1,008,590	288,880	244,699	1,777,197
-	-	-	-	35,655
-	-	-	-	282,886
5,659	1,008,590	288,880	244,699	2,095,738
-	-	-	-	492,292
-	-	-	-	280,173
-	-	-	-	20,584
-	550,000	360,000	25,000	935,000
7,562	360,135	192,549	367,763	928,009
7,562	910,135	552,549	392,763	2,656,058
(1,903)	98,455	(263,669)	(148,064)	(560,320)
-	-	239,424	-	239,424
-	-	-	137,000	383,594
-	(137,000)	-	-	(137,000)
-	(137,000)	239,424	137,000	486,018
(1,903)	(38,545)	(24,245)	(11,064)	(74,302)
75,039	138,285	44,678	28,819	306,601
\$ 73,136	\$ 99,740	\$ 20,433	\$ 17,755	\$ 232,299

**KENT CITY COMMUNITY SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2008**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 181,020	\$ 185,060	\$ 4,040
State sources	35,655	35,655	-
Federal sources	236,855	282,886	46,031
<b>Total Revenues</b>	<u>453,530</u>	<u>503,601</u>	<u>50,071</u>
<b>Expenditures</b>			
Current:			
Food service	447,950	492,292	(44,342)
Community services	20,585	20,584	1
<b>Total Expenditures</b>	<u>468,535</u>	<u>512,876</u>	<u>(44,341)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(15,005)</u>	<u>(9,275)</u>	<u>5,730</u>
<b>Other Financing Sources</b>			
Transfers in	15,000	10,000	(5,000)
<b>Net Change in Fund Balances</b>	(5)	725	730
<b>Fund Balances, July 1</b>	<u>8,813</u>	<u>8,813</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 8,808</u></u>	<u><u>\$ 9,538</u></u>	<u><u>\$ 730</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**Athletics Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2008**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 42,254	\$ 44,309	\$ 2,055
<b>Expenditures</b>			
Current:			
Athletics	281,084	280,173	911
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(238,830)	(235,864)	2,966
<b>Other Financing Sources</b>			
Transfers in	238,830	236,594	(2,236)
<b>Net Change in Fund Balances</b>	-	730	730
<b>Fund Balances, July 1</b>	10,967	10,967	-
<b>Fund Balances, June 30</b>	\$ 10,967	\$ 11,697	\$ 730

## **SPECIAL REVENUE FUNDS**

*Food Service*—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

*Athletics*—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

**KENT CITY COMMUNITY SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 36,082	\$ (35,842)
Due from other funds	19,195	38,900
Due from other governmental units	3,938	3,232
Inventory	<u>6,777</u>	<u>3,438</u>
<b>Total Assets</b>	<u><u>\$ 65,992</u></u>	<u><u>\$ 9,728</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 44,176	\$ 915
Due to other funds	3,222	-
Deferred revenue	<u>9,056</u>	<u>-</u>
<b>Total Liabilities</b>	<u>56,454</u>	<u>915</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>9,538</u>	<u>8,813</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 65,992</u></u>	<u><u>\$ 9,728</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2008 and 2007**

	2008	2007
<b>Revenues</b>		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 119	\$ 88
Sales and admissions:		
Children's lunches	134,790	142,495
Adult lunches	4,085	4,517
Ala carte	44,958	48,461
Banquets	1,108	-
	<u>184,941</u>	<u>195,473</u>
Total local sources	185,060	195,561
State sources	35,655	23,459
Federal sources	<u>282,886</u>	<u>211,418</u>
<b>Total Revenues</b>	<u>503,601</u>	<u>430,438</u>
<b>Expenditures</b>		
Current:		
Food service:		
Salaries	125,073	145,348
Employee benefits	52,106	60,319
Purchased services	73,425	74,548
Supplies	239,601	246,650
Capital outlay	1,110	1,748
Miscellaneous	977	70
Total food service	<u>492,292</u>	<u>528,683</u>
Custody and care of children:		
Salaries	5,851	-
Employee benefits	1,226	-
Supplies	13,507	-
Total custody and care of children	<u>20,584</u>	<u>-</u>
<b>Total Expenditures</b>	<u>512,876</u>	<u>528,683</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(9,275)</u>	<u>(98,245)</u>
<b>Other Financing Sources</b>		
Transfers in	<u>10,000</u>	<u>94,132</u>
<b>Net Change in Fund Balances</b>	725	(4,113)
<b>Fund Balances, July 1</b>	<u>8,813</u>	<u>12,926</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 9,538</u></u>	<u><u>\$ 8,813</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2008 and 2007**

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<b>Assets</b>	<u>2008</u>	<u>2007</u>
Cash	\$ 350	\$ 350
Cash equivalents, deposits and investments	<u>13,252</u>	<u>16,358</u>
<b>Total Assets</b>	<u><u>\$ 13,602</u></u>	<u><u>\$ 16,708</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	<u>\$ 1,905</u>	<u>\$ 5,741</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>11,697</u>	<u>10,967</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 13,602</u></u>	<u><u>\$ 16,708</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 50	\$ 76
Sales and admissions:		
Gate receipts	29,319	44,437
Tournament fees	14,940	13,020
	<u>44,259</u>	<u>57,457</u>
<b>Total Revenues</b>	<u>44,309</u>	<u>57,533</u>
<b>Expenditures</b>		
Current:		
Athletics:		
Salaries	190,535	190,973
Employee benefits	46,059	46,124
Purchased services	26,018	30,123
Supplies	14,697	16,324
Miscellaneous	2,864	9,430
	<u>280,173</u>	<u>292,974</u>
<b>Total Expenditures</b>	<u>280,173</u>	<u>292,974</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(235,864)</u>	<u>(235,441)</u>
<b>Other Financing Sources</b>		
Transfers in	236,594	236,454
	<u>236,594</u>	<u>236,454</u>
<b>Net Change in Fund Balances</b>	730	1,013
<b>Fund Balances, July 1</b>	<u>10,967</u>	<u>9,954</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 11,697</u></u>	<u><u>\$ 10,967</u></u>

## **DEBT SERVICE FUNDS**

*Debt Service Funds*—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**KENT CITY COMMUNITY SCHOOLS**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2008**

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	<u>1997</u>	<u>2001</u>	<u>2005</u>	<u>2006</u>
<b>Assets</b>				
Cash equivalents, deposits and investments	\$ 72,978	\$ 106,061	\$ 22,079	\$ 19,133
Taxes receivable	848	3,659	991	834
Due from other funds	1,836	14,370	3,819	3,201
Due from other governmental units	-	-	-	-
<b>Total Assets</b>	<u><u>\$ 75,662</u></u>	<u><u>\$ 124,090</u></u>	<u><u>\$ 26,889</u></u>	<u><u>\$ 23,168</u></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Due to other funds	\$ 103	\$ 19,135	\$ 5,465	\$ 4,579
Due to other governmental units	1,575	1,556	-	-
Deferred revenue	848	3,659	991	834
<b>Total Liabilities</b>	<u>2,526</u>	<u>24,350</u>	<u>6,456</u>	<u>5,413</u>
<b>Fund Balances</b>				
Reserved for debt service	<u>73,136</u>	<u>99,740</u>	<u>20,433</u>	<u>17,755</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 75,662</u></u>	<u><u>\$ 124,090</u></u>	<u><u>\$ 26,889</u></u>	<u><u>\$ 23,168</u></u>

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Totals	
2008	2007
\$ 220,251	\$ 341,379
6,332	3,625
23,226	18,382
-	20,327
<u>\$ 249,809</u>	<u>\$ 383,713</u>

\$ 29,282	\$ 90,136
3,131	3,131
6,332	3,625
<u>38,745</u>	<u>96,892</u>
<u>211,064</u>	<u>286,821</u>
<u>\$ 249,809</u>	<u>\$ 383,713</u>

**KENT CITY COMMUNITY SCHOOLS**  
**Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2008**

	1997	2001	2005	2006
<b>Revenues</b>				
Local sources:				
Property taxes:				
Current property taxes	\$ -	\$ 976,803	\$ 280,424	\$ 235,083
Industrial facilities taxes	-	6,369	1,828	1,532
Other taxes	4,559	13,019	3,718	3,301
Interest on delinquent taxes	56	2,841	815	685
	<u>4,615</u>	<u>999,032</u>	<u>286,785</u>	<u>240,601</u>
Interest earnings:				
Interest on deposits and investments	1,044	9,558	2,095	1,201
Other local sources:				
Refund of expenditures	-	-	-	2,897
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,897</u>
<b>Total Revenues</b>	<u>5,659</u>	<u>1,008,590</u>	<u>288,880</u>	<u>244,699</u>
<b>Expenditures</b>				
Debt service:				
Principal repayment	-	550,000	360,000	25,000
Interest and fiscal charges:				
Interest expense	7,562	359,535	192,103	367,588
Paying agent fees	-	40	285	40
Tax refunds	-	560	161	135
	<u>-</u>	<u>560</u>	<u>161</u>	<u>135</u>
<b>Total Expenditures</b>	<u>7,562</u>	<u>910,135</u>	<u>552,549</u>	<u>392,763</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(1,903)</u>	<u>98,455</u>	<u>(263,669)</u>	<u>(148,064)</u>
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	-	-	239,424	-
Transfers in	-	-	-	137,000
Transfers out	-	(137,000)	-	-
	<u>-</u>	<u>(137,000)</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(137,000)</u>	<u>239,424</u>	<u>137,000</u>
<b>Net Change in Fund Balances</b>	<u>(1,903)</u>	<u>(38,545)</u>	<u>(24,245)</u>	<u>(11,064)</u>
<b>Fund Balances, July 1</b>	<u>75,039</u>	<u>138,285</u>	<u>44,678</u>	<u>28,819</u>
<b>Fund Balances, June 30</b>	<u>\$ 73,136</u>	<u>\$ 99,740</u>	<u>\$ 20,433</u>	<u>\$ 17,755</u>

Totals	
2008	2007
\$ 1,492,310	\$ 1,397,909
9,729	4,794
24,597	856
4,397	4,249
<u>1,531,033</u>	<u>1,407,808</u>
13,898	12,148
<u>2,897</u>	<u>-</u>
<u>1,547,828</u>	<u>1,419,956</u>
935,000	890,000
926,788	958,752
365	513
856	1,005
<u>1,863,009</u>	<u>1,850,270</u>
<u>(315,181)</u>	<u>(430,314)</u>
239,424	574,568
137,000	-
<u>(137,000)</u>	<u>-</u>
<u>239,424</u>	<u>574,568</u>
(75,757)	144,254
<u>286,821</u>	<u>142,567</u>
<u>\$ 211,064</u>	<u>\$ 286,821</u>

## **CAPITAL PROJECTS FUND**

*Building and Site*—to account for property tax revenues and interest earnings used to finance building improvements projects.

**KENT CITY COMMUNITY SCHOOLS**  
**Building and Site Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 889,638	\$ 771,468
Taxes receivable	764	450
Due from other funds	2,463	2,189
Due from other governmental units	<u>-</u>	<u>2,471</u>
<b>Total Assets</b>	<u><u>\$ 892,865</u></u>	<u><u>\$ 776,578</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ 23,254	\$ 12,699
Due to other governmental units	380	380
Deferred revenue	<u>764</u>	<u>450</u>
<b>Total Liabilities</b>	<u>24,398</u>	<u>13,529</u>
<b>Fund Balances</b>		
Reserved for capital outlay	<u>868,467</u>	<u>763,049</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 892,865</u></u>	<u><u>\$ 776,578</u></u>

**KENT CITY COMMUNITY SCHOOLS**  
**Building and Site Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
Local sources:		
Property taxes:		
Current property taxes	\$ 180,869	\$ 169,462
Industrial facilities taxes	1,180	581
Other property taxes	2,536	-
Interest on delinquent taxes	518	503
Total property taxes	<u>185,103</u>	<u>170,546</u>
Interest earnings:		
Interest on deposits and investments	<u>30,053</u>	<u>25,843</u>
<b>Total Revenues</b>	<u>215,156</u>	<u>196,389</u>
<b>Expenditures</b>		
Facilities acquisition:		
Building improvements	109,634	75,340
Tax refunds	<u>104</u>	<u>141</u>
<b>Total Expenditures</b>	<u>109,738</u>	<u>75,481</u>
<b>Net Change in Fund Balances</b>	105,418	120,908
<b>Fund Balances, July 1</b>	<u>763,049</u>	<u>642,141</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 868,467</u></u>	<u><u>\$ 763,049</u></u>

## **AGENCY FUND**

*Student Activities*—to account for the collection and disbursements of monies used by the school activity clubs and groups.

**KENT CITY COMMUNITY SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2008**

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	<u>Balances</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2008</u>
<b>Assets</b>				
Cash equivalents, deposits and investments	<u>\$ 141,662</u>	<u>\$ 317,112</u>	<u>\$ 296,631</u>	<u>\$ 162,143</u>
<b>Liabilities</b>				
Due to student groups	<u>\$ 141,662</u>	<u>\$ 317,112</u>	<u>\$ 296,631</u>	<u>\$ 162,143</u>

## **OTHER INFORMATION**

**KENT CITY COMMUNITY SCHOOLS**  
**Summary of 2007 Taxes Levied and Collected**  
**For the year ended June 30, 2008**

	Kent County			Muskegon County	Newaygo County	Ottawa County	
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	Total
<b>Taxable Valuations</b>							
Operating	\$5,032,271	\$1,097,770	\$21,765,498	\$5,341,869	\$ 8,903	\$541,885	\$33,788,196
Debt Service/Building and Site	29,141,055	8,028,011	107,093,056	31,034,205	234,114	5,753,832	181,284,273
<b>Rates (Mills)</b>							
General Fund							17.5330
2001 Debt Service Fund							5.4000
2005 Debt Service Fund							1.5500
2006 Debt Service Fund							1.3000
Building and Site Fund							1.0000
							<u>26.7830</u>
<b>Taxes Levied 2007 Rolls</b>							
General Fund	\$ 88,229	\$ 19,247	\$ 376,958	\$ 93,659	\$ 156	\$ 9,501	\$ 587,750
2001 Debt Service Fund	157,363	43,352	578,307	167,589	1,264	31,072	978,947
2005 Debt Service Fund	45,176	12,446	166,023	48,112	363	8,920	281,040
2006 Debt Service Fund	37,872	10,433	139,178	40,333	304	7,478	235,598
Building and Site Fund	29,138	8,027	107,083	31,032	234	5,753	181,267
	<u>357,778</u>	<u>93,505</u>	<u>1,367,549</u>	<u>380,725</u>	<u>2,321</u>	<u>62,724</u>	<u>2,264,602</u>
<b>Taxes Uncollected 2007 Rolls</b>							
General Fund	195	-	3,116	2,608	-	-	5,919
2001 Debt Service Fund	60	-	960	1,123	-	-	2,143
2005 Debt Service Fund	17	-	276	322	-	-	615
2006 Debt Service Fund	14	-	231	270	-	-	515
Building and Site Fund	11	-	178	208	-	-	397
	<u>297</u>	<u>-</u>	<u>4,761</u>	<u>4,531</u>	<u>-</u>	<u>-</u>	<u>9,589</u>
<b>Taxes Collected 2007 Rolls</b>							
General Fund	88,034	19,247	373,842	91,051	156	9,501	581,831
2001 Debt Service Fund	157,303	43,352	577,347	166,466	1,264	31,072	976,804
2005 Debt Service Fund	45,159	12,446	165,747	47,790	363	8,920	280,425
2006 Debt Service Fund	37,858	10,433	138,947	40,063	304	7,478	235,083
Building and Site Fund	29,127	8,027	106,905	30,824	234	5,753	180,870
	<u>357,481</u>	<u>93,505</u>	<u>1,362,788</u>	<u>376,194</u>	<u>2,321</u>	<u>62,724</u>	<u>2,255,013</u>
<b>Delinquent Taxes Collected</b>							
General Fund	-	-	-	-	-	-	-
2001 Debt Service Fund	-	-	-	-	-	-	-
2005 Debt Service Fund	-	-	-	-	-	-	-
2006 Debt Service Fund	-	-	-	-	-	-	-
Building and Site Fund	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

**KENT CITY COMMUNITY SCHOOLS**  
**Summary of 2007 Taxes Levied and Collected**  
**For the year ended June 30, 2008**

	Kent County			Muskegon County	Newaygo County	Ottawa County	
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	Total
<b>Total Taxes Collected</b>							
General Fund	88,034	19,247	373,842	91,051	156	9,501	581,831
2001 Debt Service Fund	157,303	43,352	577,347	166,466	1,264	31,072	976,804
2005 Debt Service Fund	45,159	12,446	165,747	47,790	363	8,920	280,425
2006 Debt Service Fund	37,858	10,433	138,947	40,063	304	7,478	235,083
Building and Site Fund	29,127	8,027	106,905	30,824	234	5,753	180,870
	<u>\$ 357,481</u>	<u>\$ 93,505</u>	<u>\$ 1,362,788</u>	<u>\$ 376,194</u>	<u>\$ 2,321</u>	<u>\$ 62,724</u>	<u>\$ 2,255,013</u>
<b>Taxes Uncollected – June 30, 2008</b>							
General Fund:							
2007	195	-	3,116	2,608	-	-	5,919
2006	461	-	2,587	2,673	-	-	5,721
2005	376	-	467	-	-	-	843
	<u>1,032</u>	<u>-</u>	<u>6,170</u>	<u>5,281</u>	<u>-</u>	<u>-</u>	<u>12,483</u>
1997 Debt Service Fund:							
2006	58	-	324	335	-	-	717
2005	58	-	73	-	-	-	131
	<u>116</u>	<u>-</u>	<u>397</u>	<u>335</u>	<u>-</u>	<u>-</u>	<u>848</u>
2003 Debt Service Fund:							
2007	60	-	960	1,123	-	-	2,143
2006	98	-	588	610	-	-	1,296
2005	98	-	122	-	-	-	220
	<u>256</u>	<u>-</u>	<u>1,670</u>	<u>1,733</u>	<u>-</u>	<u>-</u>	<u>3,659</u>
2005 Debt Service Fund:							
2007	17	-	276	322	-	-	615
2006	19	-	155	160	-	-	334
2005	19	-	23	-	-	-	42
	<u>55</u>	<u>-</u>	<u>454</u>	<u>482</u>	<u>-</u>	<u>-</u>	<u>991</u>
2006 Debt Service Fund:							
2007	14	-	231	270	-	-	515
2006	19	-	147	153	-	-	319
	<u>33</u>	<u>-</u>	<u>378</u>	<u>423</u>	<u>-</u>	<u>-</u>	<u>834</u>
Building and Site Fund:							
2007	11	-	178	208	-	-	397
2006	21	-	147	152	-	-	320
2005	21	-	26	-	-	-	47
	<u>53</u>	<u>-</u>	<u>351</u>	<u>360</u>	<u>-</u>	<u>-</u>	<u>764</u>
<b>Total Taxes Uncollected</b>	<u>\$ 1,545</u>	<u>\$ -</u>	<u>\$ 9,420</u>	<u>\$ 8,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,579</u>

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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C P A s AND CONSULTANTS

October 6, 2008

The Board of Education  
Kent City Community Schools  
Kent County, Michigan

The following comments pertain to our audit of the financial records of Kent City Community Schools as of and for the year ended June 30, 2008. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood* that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected by the entity's internal control.

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements, the person responsible for the accounting and reporting function lacks the level of skills and knowledge necessary to apply GAAP and GASB standards in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of Kent City Community Schools is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of Kent City Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Kent City Community School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

- Inadequate segregation of duties in the District business office, which leads to a lack of independent monitoring of the accounting functions of the District Business Manager.

This communication is intended solely for the information and use of management, the Board of Education, others within the organization, and the Michigan Department of Treasury. It is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldrin, Nichols & Austin, P.C.*

Certified Public Accountants

# Hungerford, Aldrin, Nichols & Carter, P.C.

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CPAs AND CONSULTANTS

October 6, 2008

The Board of Education  
Kent City Community Schools  
Kent County, Michigan

The following comments pertain to our audit of the financial records of Kent City Community Schools as of and for the year ended June 30, 2008. The comments are made in accordance with Statement on Auditing Standards (SAS) No. 114 "The Auditor's Communication with Those Charged with Governance" which requires that in all audits, certain matters are to be communicated with those charged with governance in relation to an audit of financial statements. The communications required by SAS No. 114, if pertinent to the examination, are as follows:

## **The Auditor's Responsibility Under U.S. Generally Accepted Accounting Principles**

As stated in our Engagement Letter dated June 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you, or management, of your responsibilities.

## **Auditor's Independence**

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable, independence standards. Our policies address financial interest, business and family relationships, and non-audit services that may be thought to bear on independence. In addition, our policies restrict certain non-audit services that may be provided by our firm staff and require our audit clients to accept certain responsibilities in connection with the provision of permitted non-audit services.

## **An Overview of the Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the Engagement Letter dated June 1, 2008.

## **Significant Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Engagement Letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kent City Community Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Disagreements with Management**

We encountered no significant disagreements in dealing with management in performing and completing our audit.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Management Representations**

We have requested certain representations from management that are included in the Management's Representation Letter dated October 6, 2008.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements. There were no adjustments proposed during the audit not accepted and recorded by District management.

#### **General Fund**

1. \$39,196 to properly allocate property tax collections between District funds and accounts.
2. \$36,064 to record accrued interest due at year-end on the State aid anticipation loan.
3. \$52,594 to record 2007 unemployment charges billed at June 30, 2008.

#### **Food Service Fund**

1. \$28,093 to record USDA entitlement and bonus commodities used during the year.

Debt Service Funds

1. \$87,620 to properly allocate property tax collections between District funds and accounts.

Building and Site Fund

1. \$8,754 to properly allocate property tax collections between District funds and accounts.

**Other Significant, Relevant Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to, and during the process of, the District's audit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Significant new auditing standards from the American Institute of Certified Public Accountants were required to be implemented during the 2007-08 audit process involving the auditor's review, observation, evaluation and documentation of the District's significant areas of internal controls. Our findings and comments regarding the District's internal control processes and procedures based on these new auditing standards are detailed in Appendix A, attached to this letter.

Current auditing standards (SAS No. 112 "Communicating Internal Control Related Matters Identified in an Audit") also require that auditors communicate, in writing, any significant deficiencies and/or material weaknesses in the design or operation of an entity's internal controls discovered during the audit, which we have done in a separate letter accompanying the audited financial statements.

**Other Comments**

The District General Fund balance decreased by \$218,197 to \$814,888 at June 30, 2008. This balance represents approximately 6.4 percent of the District's 2008-09 expenditure budget (down from 8.4 percent at June 30, 2007). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kent City Community Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

**Closing**

This communication is intended solely for the information and use of the Kent City Community Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants

**HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC**  
**Statement on Auditing Standards No. 114 Letter**  
**Appendix A - Comments On Significant Internal Control Areas for**  
**KENT CITY COMMUNITY SCHOOLS**  
**For the Year Ended June 30, 2008**

Listed below are the internal control areas that auditors are now required to review, evaluate and document during the audit process, if those areas are significant to an entity's operations. For each of the areas considered to be "significant" the auditor must answer all of the following questions, inspect supporting documentation and observe client compliance with its prescribed procedures, i.e. "walkthrough" the process as it is being performed.

1. Is the control placed in operation?
2. What audit assertions apply to this control?
3. Is the control a key control?
4. Is the control dependent on IT?
5. Is the control manual or automated?
6. Is the control properly designed?
7. Is the control implemented?
8. Comments/transactions or documentation examined for walkthrough
9. Is a control deficiency possible?

The significant internal control areas of Kent City Community Schools are listed below. Each bullet point describes the "significant" internal controls that apply in each internal control area. The bolded comments represent suggestions for improvements in the District's internal controls, based on our observations during the 2007-08 audit process.

**GENERAL CONTROLS**

- Documentation of the internal control system
  1. **The District should complete a documented system for all District accounting procedures and internal controls to insure that its operations are completed as designed and so third parties can review and monitor these policies to insure independent oversight of these processes.**
- Segregation of duties
- Independent monitoring of accounting functions
  1. **Due to the limited number of personnel in the District business office, independent monitoring of the Business Manager's many accounting functions is difficult. The District should consider utilizing an independent consultant to perform monitoring/review functions on a regular basis.**

**BUDGETS**

- Budget adoptions, amendments for all required funds
  - 1 **The General Fund budget (for both revenues and expenditures) must be closely monitored near year-end to anticipate changes from original expectations and amend function level balances to avoid significant variances between final actual and budgeted results.**
- Budget accounting principles consistent with actual transactions
  1. **The Food Service Fund budget should reflect USDA entitlement and bonus commodities used as federal revenues and food expenditures to match actual transactions recorded in the financial statements.**
- Documented authorization for all budget amendments

**HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC**  
**Statement on Auditing Standards No. 114 Letter**  
**Appendix A - Comments On Significant Internal Control Areas for**  
**KENT CITY COMMUNITY SCHOOLS**  
**For the Year Ended June 30, 2008**

**CASH**

- Cash collection/receipting procedures
  1. **Periodic monitoring of the cash collection/deposit process should be completed by business office personnel in the areas outside of the central office where cash is commonly collected (food service, athletics, student activities, community enrichment, driver education, preschool/childcare, community pool). Uniform documented procedures should be established to insure the safety of District funds in each of these areas.**
- Cash storage/deposit procedures
- Bank account security/authorization policies
- Check preparation/signing/security procedures
- Non-check disbursement authorization/control policies and procedures
- Bank reconciliation preparation/monitoring procedures

**INVESTMENTS**

- Investment policy adoption/implementation/monitoring procedures
  1. **The District Investment Policy should be reviewed annually by the Business Manager and the Board of Education (and/or Finance Committee) to respond to the rapid changes occurring in the investment environment, and to insure compliance with current accounting disclosure requirements. Someone in District governance (a Board of Education or Finance Committee member) should be responsible for reviewing District investments on a regular basis to insure that the requirements of the Investment Policy are being followed. This process should include a review of FDIC insurance coverage with each financial institution utilized by the District.**
- Investment purchase approval procedures
- Investment custodial /security policies/procedures
- Investment record keeping/reconciliation procedures
- Investment return policies/procedures/monitoring

**REVENUES AND RECEIVABLES**

- Budgeting and actual-to-budget monitoring procedures
- Property tax collection/monitoring procedures
- State revenue sharing verification/reconciliation procedures
- Billing/collection procedures for fees/charges for services

**EXPENDITURES AND PAYABLES**

- Purchase order initiation/approval/processing procedures
- Invoice processing/approval/payment procedures
- Purchase pricing/cut-off/compliance review procedures
- Budget-to-actual comparison/review procedures

**PAYROLL**

- Hiring/personnel input procedures
- Timekeeping/approval procedures
- Payroll preparation/distribution/general ledger procedures

**HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC**  
**Statement on Auditing Standards No. 114 Letter**  
**Appendix A - Comments On Significant Internal Control Areas for**  
**KENT CITY COMMUNITY SCHOOLS**  
**For the Year Ended June 30, 2008**

- Cost allocation procedures/monitoring
- Budget-to-actual comparison/review procedures
- Payroll bank account transaction monitoring/reconciliation

**CAPITAL ASSETS**

- Acquisition/disposal/capitalization approval/documentation
- Asset custody/security/recordkeeping procedures
- Construction project record keeping/monitoring procedures
- Lapse schedule/depreciation record keeping/monitoring procedures

**DEBT AND DEBT SERVICE**

- Debt issuance and liability transaction approval
- Debt proceeds expenditure/monitoring procedures
- Debt agreement compliance monitoring procedures
- Principal and interest payment/monitoring procedures
- Debt refunding approval/documentation/monitoring

**GRANTS AND SIMILAR PROGRAMS**

- The District has procedures for identifying federal, state and other awards
- The District has accounting procedures for identifying and recording receipts and expenditures of program funds separately and in the appropriate cost category for each award or grant
- The District has a documented time schedule for filing financial reports with Grantors and policies for identifying special requirements of grants
- District funds are accounted for in separate grant control accounts
- The District has established controls to preclude charging federal award Programs with unallowable costs and expenditures
- The District has responsible individuals who monitor matching requirements, levels of effort, and earmarking limitations to insure District compliance with applicable laws and regulations
- Reconciliations of grant financial reports with supporting accounting records Are prepared, reviewed, and approved by a responsible official before filing
- Financial reports and claims for advances and reimbursements agree with the supporting financial records and general ledger
- A responsible official approves requests for advances or reimbursements.
- The District's calculation of required District funds considers updated estimates of allowable program costs
- A responsible member of management reviews costs charged to direct and indirect cost centers in accordance with applicable grant requirements and governmental management circulars pertaining to cost principles
- A responsible member of management uses a set checklist to review and approve the provision of services to ensure that recipients are eligible under specific program requirements
- The District's employee time allocation method is in accordance with the Standards outlined in federal circulars or agency regulations

**HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC**  
**Statement on Auditing Standards No. 114 Letter**  
**Appendix A - Comments On Significant Internal Control Areas for**  
**KENT CITY COMMUNITY SCHOOLS**  
**For the Year Ended June 30, 2008**

**INFORMATIONAL TECHNOLOGY**

- District personnel are prohibited from making changes to master files
- One employee is assigned the responsibility for IT security
- There are adequate physical controls over computer facilities
- Software users are prohibited from having access to source code
- Computer access is limited to specific persons and individuals have access only
  1. **The District should consider further strengthening the process of assigning user access rights to a level that is appropriate based on each user's job responsibilities to those applications or files that are necessary for their duties.**
- Passwords are required to be complex and to be changed at regular intervals
  1. **Password security should be reviewed and improved to insure future data security.**
- There are appropriate documented procedures for back-up and storage of Applications and data files
  1. **The District should develop a comprehensive back-up and recovery plan as a part of a documented disaster recovery plan.**
- There is a documented disaster recovery plan and it has been tested
  1. **A formal disaster recovery plan should be created and updated on an annual basis to ensure the timely recovery of data and the functionality of the District's information technology assets.**
- The district has well defined policies and procedures in place for which address performing patches and upgrades, user access administration, general backup and recovery operations and timelines for performing regular security and configuration settings reviews.
  1. **The district should consider taking additional steps to establish a defined set of standard operating procedures and policies and evaluate their effectiveness throughout the year. Doing so will help to establish a stable and secure IT operating environment that consistently produces reliable data and reduces the risk of fraud or the loss of sensitive data.**

**KENT CITY  
COMMUNITY SCHOOLS**

Auditor's Report On Compliance  
For Federal Grant Programs

For the year ended June 30, 2008

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### **KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2008

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Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

October 6, 2008

The Board of Education  
Kent City Community Schools  
Kent County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Kent City Community School's basic financial statements and have issued our report thereon dated October 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kent City Community School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kent City Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kent City Community School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

The Board of Education  
Kent City Community Schools  
October 6, 2008

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs Item 2008-1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not considered a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kent City Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of Kent City Community Schools in a separate letter dated October 6, 2008.

Kent City Community School's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Kent City Community School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldine, Nichols & Austin, P.C.*

Certified Public Accountants

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

October 6, 2008

The Board of Education  
Kent City Community Schools  
Kent County, Michigan

**Compliance**

We have audited the compliance of Kent City Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Kent City Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kent City Community School's management. Our responsibility is to express an opinion on Kent City Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kent City Community School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kent City Community School's compliance with those requirements.

In our opinion, Kent City Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of Kent City Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kent City Community School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kent City Community School's control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City Community Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 6, 2008. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise Kent City Community School's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants

## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

### **KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2008

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
<b>U.S. Department of Education</b>		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
071530 0607		\$ 136,706
081530 0708		174,093
Total Title I		310,799
 Title I – Migrant:	84.011	
071890 0607-Reg		56,237
071830 2007-Summer		165,195
081890 0708-Reg		45,983
Total Title I – Migrant		267,415
 Title IIA:	84.367	
070520 0607		56,272
080520 0708		82,237
Total Title IIA		138,509
 Title IID:	84.318	
080290 0708		2,954
 Title V:	84.298	
080250 0708		291
 Service Provider Self Review:	84.027A	
070440 0607		2,786
Total Passed Through MDE		722,754
 Passed through Sparta Area Schools:		
Title III - LAP:	84.365A	
070580 0708		15,764
080580 0708		13,433
Total Passed Through Sparta Area Schools		29,197

*See Notes to Schedule of Expenditures of Federal Awards*

<b>Accrued (Deferred) Revenue At July 1, 2007</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2008</b>
\$ 25,231	\$ 128,467	\$ —	\$ 25,231	\$ —
—	—	151,797	71,119	80,678
25,231	128,467	151,797	96,350	80,678
4,939	33,337	—	4,939	—
—	—	128,702	128,702	—
—	—	45,983	31,455	14,528
4,939	33,337	174,685	165,096	14,528
20,848	31,633	—	20,848	—
—	—	73,801	55,643	18,158
20,848	31,633	73,801	76,491	18,158
—	—	2,954	2,954	—
—	—	291	291	—
2,786	2,786	—	2,786	—
53,804	196,223	403,528	343,968	113,364
—	—	15,764	15,764	—
—	—	13,433	13,433	—
—	—	29,197	29,197	—

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)*****KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2008

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
Passed through Kent Intermediate School District (KISD):		
Safe and Drug Free Schools and Communities Act:	84.186A	
072860 0607		\$ 15
082860 0708		3,902
		<hr/>
Total Safe and Drug Free Schools and Communities Act		3,917
		<hr/>
Special Education Cluster:		
I.D.E.A. – Flow Through:	84.027	
Flow Through – 070450 0607		244,954
Flow Through – 080450 0708		292,211
		<hr/>
Total I.D.E.A. – Flow Through		537,165
		<hr/>
I.D.E.A. – Preschool:	84.173	
Preschool – 060460 0506		7,508
Preschool – 070460 0607		10,767
		<hr/>
Total I.D.E.A. – Preschool		18,275
		<hr/>
Total Special Education Cluster		555,440
		<hr/>
Total Passed Through Intermediate School District		559,357
		<hr/>
<b>Total U.S. Department of Education</b>		1,311,308
		<hr/>
<b>U.S. Department of Health and Human Services</b>		
Passed through Kent Intermediate School District (KISD):		
School Based Medicaid:	93.778	
0607 Program		58
0708 Program		1,626
		<hr/>
Total School Based Medicaid		1,684
		<hr/>
<b>Total U.S. Department of Health and Human Services</b>		1,684
		<hr/>

*See Notes to Schedule of Expenditures of Federal Awards*

Accrued (Deferred) Revenue At July 1, 2007	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2008
\$ — —	\$ — —	\$ 15 3,902	\$ 15 3,902	\$ — —
—	—	3,917	3,917	—
64,829 —	243,317 —	1,637 292,211	66,466 166,474	— 125,737
64,829	243,317	293,848	232,940	125,737
1,667 —	7,464 —	44 10,767	1,711 6,882	— 3,885
1,667	7,464	10,811	8,593	3,885
66,496	250,781	304,659	241,533	129,622
66,496	250,781	308,576	245,450	129,622
120,300	447,004	741,301	618,615	242,986
58 —	58 —	1,626	58 —	— 1,626
58	58	1,626	58	1,626
58	58	1,626	58	1,626

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)*****KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2008

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
<b>U.S. Department of Agriculture</b>		
Passed through Michigan Department of Education (MDE):		
Nutrition Cluster:		
Lunches:	10.555	
Section 4 – Total Servings – 1950		\$ 18,631
Section 11 – Free and Reduced – 1960		167,686
Total Lunches		186,317
Breakfast:	10.553	
Total Servings – 1970		5,058
Free and Reduced – 1970		39,803
Total Breakfast		44,861
Summer Food Program:	10.559	
070900 Meals		21,388
071900 Administration		2,227
080900 Meals		9,057
Total Summer Food Program		32,672
Total Nutrition Cluster		263,850
U.S.D.A. Commodities:	10.550	
Bonus Commodities		2,203
Entitlement Commodities		25,890
Total U.S.D.A. Commodities		28,093
<b>Total U.S. Department of Agriculture (Passed Through MDE)</b>		291,943
<b>Total Federal Financial Assistance</b>		<b>\$ 1,604,935</b>

*See Notes to Schedule of Expenditures of Federal Awards*

Accrued (Deferred) Revenue At July 1, 2007		(Memo Only) Prior Year Expenditures		Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2008
\$	—	\$	—	\$ 18,631	\$ 18,631	\$ —
	—		—	167,686	167,686	—
	—		—	186,317	186,317	—
	—		—	5,058	5,058	—
	—		—	39,803	39,803	—
	—		—	44,861	44,861	—
	—		—	21,388	21,388	—
	—		—	2,227	2,227	—
	—		—	—	9,057	(9,057)
	—		—	23,615	32,672	(9,057)
	—		—	254,793	263,850	(9,057)
	—		—	2,203	2,203	—
	—		—	25,890	25,890	—
	—		—	28,093	28,093	—
	—		—	282,886	291,943	(9,057)
\$	120,358	\$	447,004	\$ 1,025,813	\$ 910,558	\$ 235,555



## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

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### **KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2008

#### **Section I – Summary of Auditor’s Results (Continued)**

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##### ***Federal Awards (Continued)***

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

           Yes     X     No

#### **Section II – Financial Statement Findings**

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##### **Current Year Findings**

Significant deficiency (Item 2008-1) in internal control over financial reporting.

- 2008-1 Inadequate segregation of duties in the District business office, which leads to lack of independent monitoring of the accounting functions of the District Business Manager.

To correct this deficiency the District has subsequently hired an independent individual to review financial activity, processes and postings during the 2008-09 fiscal year. This finding is a repeat from the prior year finding 2007-1.

##### **Prior Year Findings**

- 2007-1 Inadequate segregation of duties in the District business office, which leads to a lack of independent monitoring of the accounting functions of the District Business Manager.

This finding has been repeated in the current year as finding 2008-1.

- 2007-2 The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) reporting standards in recording the District's financial transactions or preparing its financial statements (including Management's Discussion and Analysis and Notes to Basic Financial Statements) in compliance with current GAAP and GASB requirements.

Corrective action has been taken and finding has been cleared.

#### **Section III – Federal Award Findings and Questioned Costs**

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There were no findings or questioned costs.

## ***NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

### **KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2008

**Note A** – The Schedule of Expenditures of Federal Awards (SEFA) was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.

**Note B** – The amounts reported on the R7120 and CMS, Grant Section Auditors Report, reconcile with the SEFA.

**Note C** – The amounts reported on the Recipient Entitlement Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

### **Note D – Federal Income Reconciliation**

	<b>Grant Expenditures Per Schedule of Federal Financial Assistance</b>	<b>Federal Revenue Per Financial Statements</b>	<b>Difference</b>
Title I	\$ 151,797	\$ 151,797	\$ —
Title I Migrant	174,685	174,685	—
Title IIA	73,801	73,801	—
Title IID	2,954	2,954	—
Title III LAP	29,197	29,197	—
Title V	291	291	—
Safe and Drug Free Schools and Communities Act	3,917	3,917	—
Special Education Cluster	304,659	304,659	—
School Based Medicaid	1,626	1,626	—
Nutrition Cluster	254,793	254,793	—
U.S.D.A. Commodities	28,093	28,093	—
	<u>\$ 1,025,813</u>	<u>\$ 1,025,813</u>	<u>\$ —</u>